ISSN–2278-5655

Aarhat Multidisciplinary International Education Research Journal

Volume–XIII, Issues– I / A Jan – Feb, 2024

OPEN ACCESS Original Research Article

CORPORATE GOVERNANCE AND INVESTORS PERCEPTION IN MUMBAI

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Abstract

It is common for a word or phrase to enter the mainstream as language changes and develops, leaving many people perplexed about its true meaning. The term "woke" originally meant merely the "past simple of wake," as in to wake up or become awake. The definition of the word has significantly evolved in the current day, and in 2017, the dictionary was updated to reflect the new definition of "woke." The dictionary describes the term as being "chiefly US slang" and adding the following definition: "Aware of and actively attentive to important facts and issues (especially issues of racial and social justice)." The advertising industry is likewise not an exception. Marketing controversies are nothing new. Advertisers strive to draw viewers' attention to their product at all costs. They are constantly seeking approaches to do that. Others unintentionally or purposely become embroiled in contentious matters, which can be detrimental to their brand's reputation. Some advertisers have seen great success with controversial ad campaigns, while others have faced detrimental impacts on their businesses. Advertisers sometimes breach moral standards and challenge oversight organizations, whether openly or covertly. When faced with protests, marketers may pause airing specific ads temporarily or seek legal recourse. This research paper centers on the breach of advertising ethics in Indian advertising, spotlighting Layer's Shot advertisement as a case study due to its backlash. The paper aims to explore its effects on the audience and identify the loopholes present in controversial advertisements.

Keyword: *Woke Culture, Controversial Advertisement, Advertising Ethics.*

Introduction:

Corporate governance is about ethical business behaviour. Corporate governance involves handling company affairs in a fair manner to all stakeholders and enabling their actions to benefit the largest number of stakeholders (SEBI, 2003). It's all about transparency, integrity, and accountability of the company. The main objective of corporate governance is to assure shareholders that managers carry out their duties to achieve the results desired by shareholders (Shleifer & Vishny, 1997).

Corporate governance became significant among researchers and investors all over the world after the global financial crisis 2008 and various big corporate scams like Maxwell communication, Union Carbide, WorldCom, Enron, Tyco, Global Crossing, Sunbeam etc. Indian individual investors also perceived corporate governance as important particularly after the UTI Scam 1990 and Satyam Scam. Although all these scams happened separately but somehow related to poor corporate governance practices and fraudulent accounting practices. Berkman, Zou & Shaofer, (2009) state that firms' having poor governance practices are more vulnerable to accounting frauds.

Investors suffered huge losses because of these scams and consequently lost confidence in the share market. The various regulatory measures i.e. Cadbury Committee, Oxley Act and the OECD principles of Corporate Governance come as a consequence of corporate scams to strengthen the corporate governance practices all over the world. Even India is not legged behind, the Confederation of Indian Industry (CII) voluntary code of corporate governance in 1998, Clause 49 in 2001, Revised Clause 49 in 2004, Companies Act 2013 are the major regulatory measures taken in India to further strengthen corporate governance practices in order to protect investors and regain their confidence in share market.

Literature Review:

There are many studies attempting to inspect the effect of corporate governance mechanisms on disclosure quality (Chau and Gray, 2002; Bushee and Noe, 2001; Ho and Wong, 2001; Chen and Jaggi's, 2000, and Wong, 2001). Brown and Hillegeist (2007) argued that the quality of financial information increases volume of investment. Siagian, Siregar and Rahadian (2013) examined the association of corporate governance practices and quality of reporting with firm value. The study found that corporate governance practices are positively related to firm value and negatively related to reporting quality.

Financial reporting of a company is a major source of information for the investors to make investment decisions. Nwaobia, Kwarbai, Jayeoba and Ajibade (2016) investigated the influence of earning quality on investors' decision to invest in Nigerian manufacturing firms. The study found that investors' decision to invest in firms and financial reporting quality are positively related. Lawrence (2013) found that individual investors prefer to invest in companies with clear and concise financial reporting. The study argued that better corporate disclosure practices benefit individual investors.

Ibrahim El-Sayed Ebaid (2013) examined the effectiveness of Eqypt code of corporate governance in enhancing investors' perception of earning quality. The study revealed strong association between corporate governance and perception of earning quality.

Previous studies have shown that the financial information of a company plays a prominent role in investment decisions and corporate governance enhances disclosure quality and transparency of financial reporting. This study explores the perception of individual investors' towards corporate governance.

Objective:

This study investigates the perception of individual investors' on corporate governance. Specially perception towards association between corporate governance and financial reporting quality of a firm in the Mumbai region. This study further studied the relative importance given by investors to corporate governance practices.

Research Methodology:

This study is mainly based on the perceptual responses of individual investors on corporate governance practice. To investigate the perception of individual investors' towards association between corporate governance and financial reporting quality of a firms, Mumbai region has been selected. The snowball and convenience sampling is used to select the sample in Mumbai region. It was decided to target 350 respondents who had invested in the share/ market but only 254 responses are received.

This study selected 7 corporate governance variable namely board size, independent directors, nonexecutive directors, women directors, presence of independent directors and nonexecutive directors in audit committee, board meetings and board committees chaired by independent directors from the literature (Vafeas,1999; Bhagat & Black, 1999; Brown & Caylor, 2004; Haniffa & Hudaib, 2006; Adams & Mehran, 2008; Sarkar, 2009; Arora, 2012; Sarkar & Sarkar, 2012; Velnampy, 2013; Vo & Nguyen, 2014; Abraham, Marston & Jones, 2015; Arora & Sharma, 2016; Sarkar & Sarkar, 2018).

The study uses 5 point Likert scale to measure the investor perception towards association between corporate governance practices and financial reporting quality. Further Relative Importance Index (RII) values are calculated to find relative rank of different corporate governance practices in financial reporting quality.

Results and Discussion:

Table 1 and 2 Outlines the socio-economic characteristics of respondents. It broadly includes gender, age, education qualifications and nature of employment. Majority of sample investors who have been included in the study were male (66.41%), aged up to 30 years (63.28%), postgraduate (59.06%) and employed in corporate organisation (46.46%).

Table 1: The socio-economic characteristics of respondents

Profile	Number of Respondents	Percentage of Total
1.Gender		
Male	168	66.14%
Female	86	33.86%
2. Age		
Up to 30	162	63.78%
31 to 40	84	33.07%
41 to 60	8	3.15%
3. Educational Qualification		
Undergraduate	36	14.17%
Graduate	58	22.83%
Postgraduate	150	59.06%
Doctorate	4	1.57%
Other	6	2.37%
4. Nature of Employment		
Employed in a corporate organization	118	46.46%
Employed in a non corporate organization	34	13.39%
Academicians	40	15.75%
Self employed	14	5.51%
Unemployed	48	18.89%

ISSN–2278-5655

AMIERJ Aarhat Multidisciplinary International Education Research Journal

Volume–XIII, Issues– I / A Jan – Feb, 2024

OPEN ACCESS Original Research Article

Table 2: Age and gender of the respondents

Age	Male	Female	Total	% of Respondents
Less than 30	90	72	162	63.28
30 to 45	72	14	86	33.59
45 to 60	8	-	8	3.13
Total	170	86	256	100
% of Respondents	66.41	33.59	100	

Table 3: show the understanding of investors about corporate governance. Out of 254 respondents 78(30.71%) understand corporate governance as Company' Rules and Regulations , 60(23.62%) as Regulatory Requirements, 50(19.69%) as Companies Code of Conduct, 28(11.02%) as Company's Vision, 20(7.87%) as Company's Board Composition and 18(7.09%) as Disclosure and Sustainability.

Table 3: As an investor how do you understand company's Corporate Governance

Particulars	No. of respondents	Percentage of total
Regulatory Requirements	60	23.62
Companies Code of Conduct	50	19.69
Disclosure and Sustainability	18	7.09
Company' Rules and Regulations	78	30.71
Company's Board Composition	20	7.87
Company's Vision	28	11.02
Total	254	100

Table 4: The investors opinion on association between the corporate governance practices and financial reporting quality of the firms. Out of 254 respondents 144(56.69%) agreed that they consider corporate governance practices of the company have positive impact on financial reporting quality.

Table 4: The investors opinion on association between the corporate governance practices and financial reporting quality of the firms.

Particulars	Yes	No	Maybe	Total
Have you perceived that the corporate governance practices of the firms have positively impact financial reporting quality?	144 (56.69%)	36 (14.17%)	74 (29.14%)	254 (100%)

ISSN–2278-5655

AMIERJ Aarhat Multidisciplinary International Education Research Journal

Volume–XIII, Issues– I / A Jan – Feb, 2024

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Table 5: Investor perception towards association between corporate governance practices and financial reporting quality of a firm

Particulars	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total
Large board size lead to high-quality financial reporting.	40 (15.75%)	102 (40.16%)	70 (27.56%)	40 (15.75%)	2 (0.78%)	254 (100%)
Higher percentage of independent directors leads to high-quality financial reporting.	15 (5.91%)	112 (44.09%)	89 (35.04%)	26 (10.24%)	12 (4.72%)	254 (100%)
Higher percentage of non-executive directors leads to high-quality financial reporting.	10 (3.94%)	96 (37.80%)	90 (35.43%)	52 (20.47%)	6 (2.36%)	254 (100%)
Higher percentage of women directors lead to high-quality financial reporting.	12 (4.72%)	94 (37%)	92 (36.22%)	44 (17.32%)	12 (4.72%)	254 (100%)
Presence of all independent directors or non-executive directors in audit committee lead to lead to high-quality financial reporting.	34 (13.39%)	120 (47.24%)	64 (25.20%)	32 (12.60%)	4 (1.57%)	254 (100%)
Conducting more number of board meetings lead to high-quality financial reporting.	14 (5.51%)	98 (38.58%)	62 (24.41%)	70 (27.56%)	10 (3.94%)	254 (100%)
Existence of more number board committees chaired by independent directors lead to high-quality financial reporting.	12 (4.72%)	94 (37%)	102 (40.16%)	34 (13.39%)	12 (4.72%)	254 (100%)
Overall good corporate governance practices lead to high-quality financial reporting	56 (22.05%)	138 (54.33%)	44 (17.32%)	8 (3.15%)	8 (3.15%)	254 (100%)

1. Table 4 shows that out of 254 respondents 40(15.75%) strongly agree that large board size lead to high-quality financial reporting, 102(40.16%) only agree to this statement, 70(27.56%) are neutral to this statement, 40(15.75%) disagree to this statement while just 2(0.78%) strongly disagree to this statement.
2. Out of 254 respondents 15(5.91%) strongly agree that higher percentage of independent directors lead to high-quality financial reporting, 112(44.09%) only agree to this statement, 89(35.05%) are neutral to this statement, 26(10.24%) disagree to this statement while just 12(4.72%) strongly disagree to this statement.
3. Out of 254 respondents 10(3.94%) strongly agree that higher percentage of non-executive directors lead to high-quality financial reporting, 96(37.80%) only agree to this statement, 90(35.43%) are neutral to this statement, 52(20.47%) disagree to this statement while just 6(2.36%) strongly disagree to this statement.
4. Out of 254 respondents 12(4.72%) strongly agree that higher percentage of women directors lead to high-quality financial reporting, 94(37.00%) only agree to this statement, 92(36.22%) are neutral to this statement, 44(17.32%) disagree to this statement while just 12(4.72%) strongly disagree to this statement.

ISSN–2278-5655

Aarhat Multidisciplinary International Education Research Journal

Volume–XIII, Issues– I / A Jan – Feb, 2024

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5. Out of 254 respondents 34(13.39%) strongly agree that presence of all independent directors or non - executive directors in audit committee lead to high-quality financial reporting, 120(47.24%) only agree to this statement, 64(25.20%) are neutral to this statement, 32(12.60%) disagree to this statement while just 4(1.57%) strongly disagree to this statement.
6. Out of 254 respondents 14(5.51%) strongly agree that conducting more number of board meetings lead to high-quality financial reporting, 98(38.58%) only agree to this statement, 62(24.41%) are neutral to this statement, 70(27.56%) disagree to this statement while just 10(3.94%) strongly disagree to this statement.
7. Out of 254 respondents 12(4.72%) strongly agree that existence of more number of board committees lead to high-quality financial reporting, 94(37.01%) only agree to this statement, 102(40.16%) are neutral to this statement, 34(13.39%) disagree to this statement while just 12(4.72%) strongly disagree to this statement.
8. Out of 254 respondents 56(22.05%) strongly agree that overall good corporate governance practices lead to high-quality financial reporting, 138(54.33%) only agree to this statement, 44(17.32%) are neutral to this statement, 8(3.15%) disagree to this statement while just 8(3.15%) strongly disagree to this statement.

Table 6: Relative importance index value and rank

Particulars	RII values	Rank
Large board size lead to high-quality financial reporting.	0.7086614173	2
Higher percentage of independent directors leads to high-quality financial reporting.	0.6724409449	3
Higher percentage of non-executive directors leads to high-quality financial reporting.	0.6409448819	5
Higher percentage of women directors lead to high-quality financial reporting.	0.6393700787	6
Presence of all independent directors or non-executive directors in audit committee lead to lead to high-quality financial reporting.	0.7165354331	1
Conducting more number of board meetings lead to high-quality financial reporting.	0.6283464567	7
Existence of more number board committees chaired by independent directors lead to high-quality financial reporting.	0.6472440945	4

Table 6 shows the investors perceived presence of independent directors and nonexecutive directors in audit committee as more importance practice for high quality financial reporting followed by large board size and higher percentage of independent directors.

Conclusion and Future Scope:

The results of the study revealed that majority of investors consider corporate governance practices of firm while making their investment decisions. They also agreed on argument that corporate governance practices of a firm improve the financial reporting quality. It is

ISSN–2278-5655

Aarhat Multidisciplinary International Education Research Journal

Volume–XIII, Issues– I / A Jan – Feb, 2024

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also found that investor consider presence of independent directors and nonexecutive directors in audit committee, large board size, and higher percentage of independent directors are the major corporate governance factor to influence the financial reporting quality of a firm.

The findings for this study is useful for the investors and firms to understand the perception of investors towards corporate governance. Future studies can cover more corporate governance practice to know investors perception about them.

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Volume–XIII, Issues– I / A

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Cite This Article:

Kundu S.T. & Prof. Kishor N. (2024). *Corporate Governance and Investors Perception in Mumbai. In Aarhat Multidisciplinary International Education Research Journal: Vol. XIII (Number I, pp. 7–14).* ***AMIERJ.*** *https://doi.org/10.5281/zenodo.10564677*